



# Crisis Lessons from Thrivers Survivors & Divers

Research on investment leadership and culture.

by **Jim Ware, CFA**, Founder of Focus Consulting Group

# Executive Summary

## 1. Key questions:

- Which asset managers survived the crisis in the best shape?
- What factors separated the “thrivers” from the mere “survivors”?
- What leadership and culture factors explained their success?
- What lessons are available to asset management leaders?

## 2. Key findings:

From a field of 60 asset management firms, six were identified as superior performers during the crisis. They are dubbed: The Focus 6. These firms scored significantly better in key leadership and culture factors, supporting our thesis that leadership and culture are important factors in an investment firm’s sustainable success. The research shows that the Focus 6 were stronger in all these areas:

- Cohesive and aligned cultures.
- Leadership and teamwork at the senior level, with significantly higher scores for:
  - Trust and respect
  - Right team members to achieve goals
  - Open debate
  - Fair compensation
- Less “sludge” (i.e., negative behaviors and attitudes) in the system.
- Ability to attract and retain top talent.
- Development of talent.
- Creation of owner mentality with staff.
- Execution.
- Communication.
- Commitment to values of: professional, excellence/continuous improvement, and ethical/integrity.

## 3. Key takeaways:

- Trust and respect are the fuel of high performing teams.
- The right team members in the right roles is critical.
- Candor is essential to high quality decision making.
- Focus 6 firms are driven to continually improve and reach for excellence.
- Focus 6 firms demonstrate a higher level of self-awareness.
- Focus 6 firms recognize the power of aligning people with natural.
- The cultures of the Focus 6 support effective decision making.

*"The phrase, 'Never waste a good crisis' has been uttered by many people in reference to the global financial crisis (GFC). In our case, we believe that the deeper the crisis, the better the lessons."*

*- Focus Consulting Group (FCG)*



*Focus Consulting Group is the recognized expert for helping investment leaders leverage talent, specifically in the areas of leadership, culture, teamwork, and coaching. We encourage you to visit our website, sign up for our distribution list: [www.focusCgroup.com](http://www.focusCgroup.com)*

# Crisis Lessons

## from Thrivers, Survivors, and Divers

by **Jim Ware, CFA**, founder of Focus Consulting Group

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# Introduction

The phrase, “Never waste a good crisis” has been uttered by many people in reference to the global financial crisis (GFC). In our case, we believe that the deeper the crisis, the better the lessons. The crisis allowed us to look at the leadership and cultures of asset managers under the ultimate stress test. We grouped the firms in three categories:

1. **Thrivers:** the firms that sailed through the crisis. We have identified six and call them the Focus 6.
2. **Survivors:** firms that survived but did not fare as well as the Thrivers.
3. **Divers:** one of the firms in our database sank (closed its doors) two months after taking the survey.

Regardless of which boat you were in, the opportunity for profound lessons was rich.

In the winter and spring of 2010, Focus Consulting undertook an extensive research project to answer these questions:

- Which asset managers survived the crisis in the best shape?
- What factors separated the Thrivers from the mere Survivors?
- What leadership and culture factors explained their success?
- What lessons are available to asset management leaders?

The methodology for our research is contained in the appendix to this paper, but some of the highlights are as follows:

- Fifty-eight surveys on culture and leadership from asset management firms.
- In-depth debriefing interviews conducted with all the leadership and/or leadership teams of these firms.
- Six firms identified as Thrivers during the crisis; dubbed the “Focus 6”.
- Three statistical experts assisted in the design of the survey and interpretation of the survey results.
- Thirty-four Focus Advisory Board members (investment leaders) reviewed the preliminary data.
- Ten Focus Consultants read and edited the final white paper.

We believe that this paper represents the most comprehensive study available on the state of leadership and culture in the asset management industry today. Our approach was to collect and study the data and then let them do the talking. Many pundits have weighed in with their observations and anecdotes about the lessons from the crisis, but this paper leads with the facts. We will also add our interpretation about what these facts mean, but our approach is data driven.

To be clear, we are not addressing the lessons about markets, financial implications, reputational risk, credit risk, liquidity concerns, and the like. This paper is about leadership and culture, the “people” part of the four P’s (Philosophy, Process, Performance, and People).

The results of this paper matter because clients

and consultants look for the following as leading indicators of performance for investment managers:

- Organizational stability (retention of key talent).
- Strong and healthy cultures.
- Sensible compensation structures.
- Strong, focused leadership.
- Clear and compelling investment processes born of stability and long-term view.

The firms we selected as the elite group that best survived the crisis (the Focus 6) succeeded in keeping these factors strong in their organizations. From the firms researched, we selected as the elite group firms that met these key metrics:

- Employees were “raving fans” of their firm (Loyalty Factor > 50%; see appendix for definitions).
- Strong confidence (Success Factor > 50%; more than half of the employees placed their firm in the top decile versus competitors).
- Low incidence of negative behaviors (measured by “sludge factor” of less than 5%).
- Culture supports effective decision making (employees agreed > 50%).

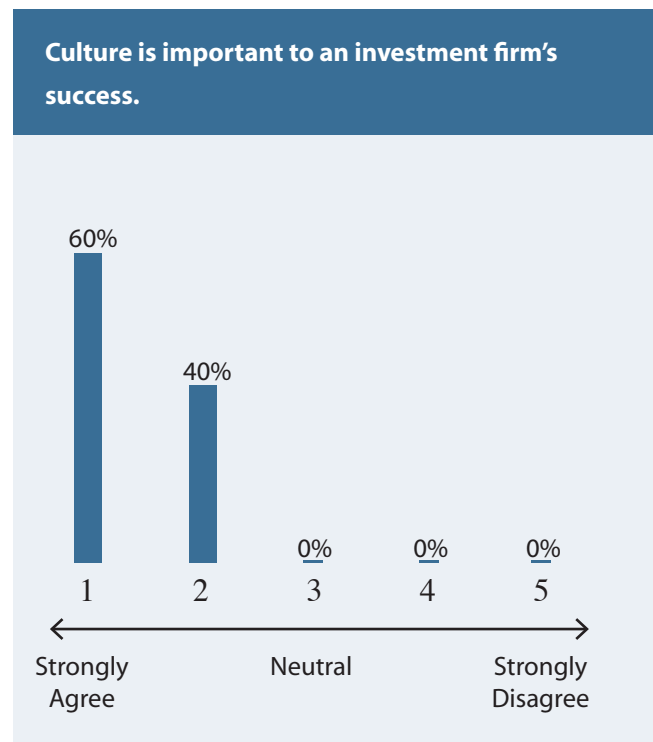
To summarize, the elite Focus 6 firms were populated with employees who emerged from the crisis feeling loyal to the firm, confident of the firm’s ongoing success, largely free of negative behaviors and attitudes, and supported by the culture in their quest to make high-quality, effective decisions. *Note:* These Focus 6 elite firms did not escape the hardships of the downturn. Some of them suffered loss of clients, lower AUM, and in some cases layoffs.

The obvious question becomes: What is happening in these firms that creates excellent results even in the worst of times? We look to the data to provide answers.

## Importance of culture: values, beliefs, and behaviors

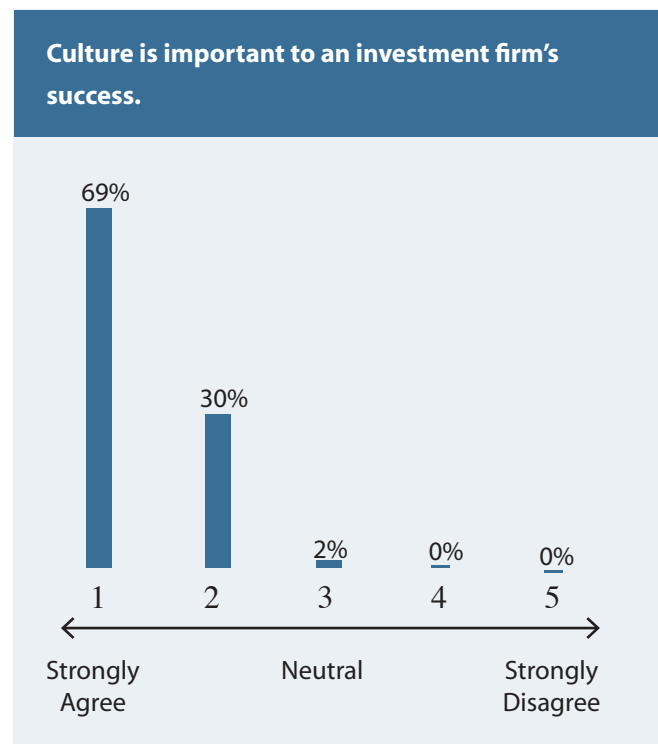
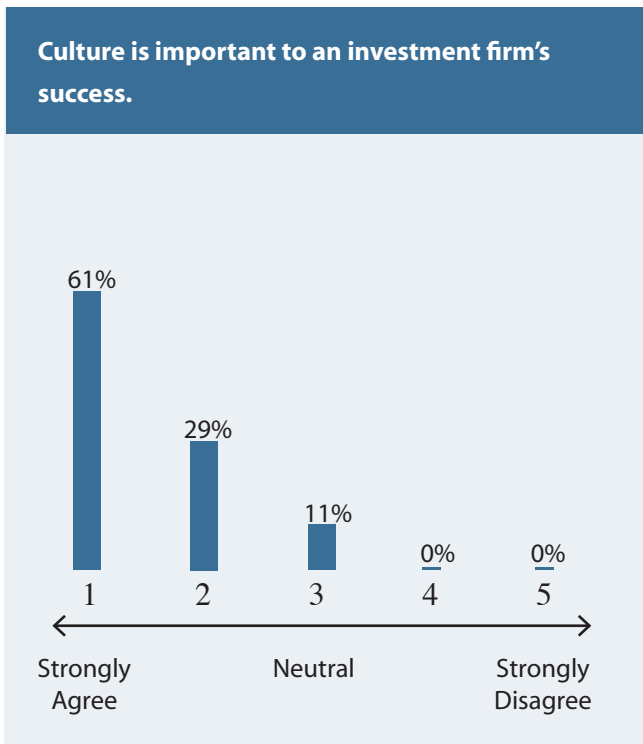
In our survey work with investment firms, we have defined and discussed culture (values, beliefs, and behaviors of a firm) to rooms of investment professionals and then asked, “Does culture matter to success?” Some of the results are as follows:

*Eighty CFA members after a speech in Singapore*



Sixty IT leaders from investment firms, U.S. Delegates Roundtable

One hundred investment professionals at SEI client conference



The aggregate data for this culture question is as follows:

Is culture important to success?	“Strongly agree” or “agree” percentage	“Neutral” or “disagree” percentage
Culture is important to an investment firm’s success.	93%	7%

Based on these data, supported by advice from industry leaders like Charlie Ellis—“in the long run, culture dominates”—we suggest that a good place to start the analysis of investment firms is with their culture: What is the DNA of the typical asset management firm? We

call this their DNA because we have seen that these are the cultural building blocks of success for this industry. The top values—based on percentage of employees voting for them in our online, confidential survey (10 votes for 73 values)—are as follows:

*Question for respondents: Which values/behaviors best describe the current culture at your firm?  
(73 choices)*

Value/behavior	Percent of employees voting for this value (avg. across all firms)
Client satisfaction	50%
Professional	45%
Ethical/Integrity	40%
Collaboration/Teamwork	34%
Intelligent	29%
Analytic/Research oriented	28%
Accountability/Responsibility	28%
Balance (home/work)	27%
Excellence/Continuous improvement	26%
Results oriented	26%
Profit/Financial success	25%
Long-term perspective/Vision	24%
Respect	22%
Competence	22%
Loyalty	21%

Having examined hundreds of these culture surveys, we can attest that most firms share the same DNA, that is, the same set of values. Interestingly, though, every single one of the 73 choices receives at least a few votes. (Ironically, the lowest vote-getter of all is “rebellious, mavericks,” which some would argue is the essence of the industry!) When one skims this list of values/behaviors for the investment industry, none of them pops out as unusual or out of place. The possible exception is “Balance (home/work).” Indeed, that value was well below the radar 10 years ago when Focus started its survey work. In our interviews, we became convinced that the entrance of millennials (GenYers) and GenXers into the workforce explains this “new” value. Baby boomers were less concerned about finding this balance, whereas younger age groups place a much higher value on it.

Though few leaders argued that the values in the preceding list represent the DNA of the investment industry, many were puzzled—even shocked—at the low percentages given to such values as “Client satisfaction” or “Ethical/Integrity.” After all, they reasoned, aren’t those two values the backbone of the industry? Shouldn’t every employee check those boxes in the survey? Again, the follow-up interviews proved useful because we learned that most respondents did indeed agree that these values were core—so core that some many respondents did not even consider “wasting” one of their 10 votes on them. A slightly different explanation came from people who said, “I greatly value my excellent health, but I wouldn’t think to say it unless I’d had a recent bout of illness. I guess we take clients and ethics a bit for granted at our firm.”

Are the values chosen by the Focus 6 (i.e., the top firms) different from those chosen by other investment firms? No. They are largely the same; the important difference is in magnitude. The following chart shows the same top 15 values ranked by the difference between the percentage of employees voting for a given value at the Focus 6 and the industry in general.

KEY: These values showed the biggest gaps between the current cultures (i.e., what is true today) of the Focus 6 and the rest of the industry.

Value/behavior	Focus 6 (percent of employees voting for this value)	Industry Average (for 54 non-Focus 6 firms)	Difference
Professional	55%	42%	13%
Excellence/Continuous improvement	36%	23%	13%
Competence	31%	19%	12%
Ethical/Integrity	49%	37%	12%
Positive	23%	14%	10%
Profit/Financial success	32%	23%	9%
Client satisfaction	56%	48%	8%
Long-term perspective/Vision	30%	23%	8%
Respect	26%	20%	6%
Accountability/ Responsibility	31%	27%	4%
Balance (home/work)	30%	27%	3%
Collaboration/ Teamwork	36%	34%	2%
Results oriented	23%	27%	-4%

When viewed this way, it appears that Focus 6 firms have woven these values deeper into the fabric of the firm. The Focus 6 placed a much stronger emphasis on “Professional,” indicating that the culture of professionalism was more thoroughly ingrained in their staffs. The same is true of “Ethical/Integrity” and “Client satisfaction”: each is a core element of any investment firm’s DNA, but arguably they are more practiced in the Focus 6. At Forest Investment Associates, one of the Focus 6 firms, the percent of staff voting for the value “Professional” was 83%, nearly twice the industry average. When asked about this, Michael Kelly, the leader of Forest Investment Associates, responded, “We work hard to develop a professional environment, where client service responsibilities are shared by everyone across the board. We practice open communication and share all client reviews—good or bad—with everyone in the firm. And we promote from within so that our culture stays intact.”

On a percentage basis, the second-rated difference—Excellence/Continuous improvement—is more than 50% greater in magnitude for Focus 6 firms. In our view, this is one of the first powerful insights from the data. The firms that made it through the crisis in the best shape are naturally committed to ongoing improvement. One of the Focus 6 leaders said, “In a weird way, we looked at the crisis as an opportunity to see how good we really were. I don’t mean that in an arrogant sense, but as a real test of our adaptability.” Rather than becoming fearful, the Focus 6 maintained a more positive and hopeful outlook, as seen in the fifth value in the chart. Remaining positive helped the Focus 6 firms avoid the predictable reactions to fear: fight, flight, freeze, or faint. Indeed, as noted earlier, the “sludge” factors—which are driven by fear—were much lower for the Focus 6.

Still on the topic of “Excellence/Continuous improvement,” one leader at a Focus 6 firm acknowledges Andrew Lo and

*“...client service responsibilities are shared by everyone across the board. We practice open communication and share all client reviews—good or bad—with everyone in the firm. And we promote from within so that our culture stays intact.”*

his Adaptive Market Hypothesis. Lo believes that markets are continually changing and adapting to investment strategies and approaches. In the same way that poker players or sports coaches size up their competition and then adjust, so do the players in the market. In aggregate, then, the markets are getting smarter. To stay on top, investment firms must continually improve.

Another differential appeared with the value of “Profit/Financial success,” which indicates that the Focus 6 kept a sharp eye on finances during the crisis. What we learned, though, is that tighter expenses did not translate into substantial layoffs. One of our Focus 6 firms, Snow Capital, explained it this way:

*“In January of 2009, we did lay off 4 people from our staff of 40, but we immediately followed up with a statement to the remaining team that we did not anticipate any more staff reductions. We were very open and transparent about the pressures on our business. I think the staff appreciated our candor, and fortunately we were able to deliver on our promise to maintain the work force after that initial round of cuts” (Carl Vuono, COO, Snow Capital).”*

The explanation seems straight out of Maslow’s hierarchy of needs: survival is the first consideration when a person is threatened. During the crisis, many firms were slow to react in this regard, for a variety of reasons, whereas the Focus 6 took appropriate steps to manage finances, as in the case of Snow. These leadership decisions, taken to make sure that survival was assured, helped reduce fear in the organization—and fear, as we will discuss later in the paper, is the driver of many negative behaviors.

Another Focus 6 leader, Ted Aronson at AJO, explained his view of profit/financial success this way:

*“We try to maintain the same behaviors and attitudes during lean and lush times. Because we weren’t overextended financially, we did not panic during the crisis. Over 25 years, we’ve built a strong and balanced organization that is very*

*transparent. All of our client correspondence is available to anyone in the firm to read. We believe that openness builds trust.”*

Michael Kelly of Forest, said, “Our revenues and profits were certainly affected by the downturn, but we did not have to lay anyone off. We reassured our team that their jobs were secure because the long-term prospects in our view are good. In 2010 we’ve added two people to bring our employee number to 48.”

Long-term perspective/vision is the antidote to “short-termism.” During the crisis, we saw the short-term monster rear its ugly head quite often. (See section on “Sludge Factors” for more on this.) It’s no surprise, then, that the Focus 6 paid significantly more attention to maintaining the long-term perspective and viewed expense management with a longer-term lens (especially the management of human capital).

Finally, though the values of “Trust/Sincerity,” “Candor/Honesty/Open,” and “Curiosity/Open to new ideas” did not make the top 15 values in the voting—and therefore were not part of the analysis—in each case the difference in these key behaviors was much higher for Focus 6 teams. Based on our research into the benefits of practicing these key behaviors, we are not surprised that they were more in evidence at the top firms. Several Focus 6 leaders said that their mantra during the crisis was: Communicate, communicate, communicate. By overcommunicating during the crisis, these leaders avoided the bad outcome of the old joke:

Three old-timers on a park bench:

1<sup>st</sup> guy: Today is windy.

2<sup>nd</sup> guy: No, it’s Thursday.

3<sup>rd</sup> guy: So am I, let’s get a drink.

Ted Aronson, as indicated earlier, provides open access to all client communications for 24 hours, so any employee has access. Aronson commented,

*“It’s not sufficient to have one person on your team who is a truth teller. Everyone on the team must be candid in sharing the entire truth. No matter how painful it is.”<sup>2</sup>*

“Outside people think we’re crazy to do that, but it’s never come back to haunt us. It builds trust by having complete transparency.” Michael Kelly echoed the same policy of open communication at Forest.

As a key driver in healthy and productive relationships, effective leaders understand the value of leading by example. This authenticity helps reduce fear in the firm as employees better understand the current reality: where they stand, where the firm is going, and what the future holds. Scott Powers at SSgA is skilled at keeping the top priorities and accountabilities

“front and center” during both good and bad times. His staff claims, “It keeps us focused and reduces fear.” Reduced fear translates into increased productivity.

Coincidentally, leadership teams that embraced and practiced the most effective behaviors—like trust, candor, and accountability—found that their teams did, too. Leading by example proved to be the most powerful technique for maintaining strong, cohesive cultures. Leaders, especially during the crisis, must remain true to the core values. Jamie Dimon at JP Morgan Chase made this point forcefully when he said, “It’s not sufficient to have one person on your team who is a truth teller. Everyone on the team must be candid in sharing the entire truth. No matter how painful it is.”<sup>2</sup>

Aspirational culture: what does our preferred culture look like?

Through the preceding data, respondents were describing the current culture of their organizations. We also asked them to choose from the same list of possibilities the ones that describe the aspirational or preferred future culture.<sup>3</sup> In the top firms, the alignment between current and aspirational is high; that is, the same values and behaviors are chosen in each case. Of the top 10 values in the current state for the Focus 6, 75% also show up in the aspirational list. The ratio for the industry as a whole is 56%.

The following chart shows the same “gap analysis” between the Focus 6 and the industry, but this time respondents were given these instructions: Check the values/behaviors that describe your preferred culture, that is, the one that would best allow the organization to realize its vision of success.

Value/Behavior in aspirational culture (i.e., preferred future)	Focus 6 (percent of employees voting for this value)	Industry Average	Difference
Client satisfaction	48%	39%	9%
Professional	41%	32%	9%
Profit/Financial success	34%	25%	8%
Loyalty	26%	19%	7%
Positive	29%	23%	6%
Balance (home/work)	36%	30%	6%
Ethical/Integrity	38%	32%	5%
Respect	34%	30%	3%
Trust/Sincerity	28%	25%	2%
Candor/Honesty/Open	25%	24%	1%
Excellence/Continuous improvement	43%	42%	1%
Long-term perspective/Vision	34%	35%	-1%
Leadership development/Mentoring	25%	26%	-1%
Accountability/Responsibility	28%	30%	-1%
Collaboration/Teamwork	35%	42%	-8%

First, note that the top vote-getters—Client satisfaction, Professional, Ethical/Integrity—are the same for current and aspirational voting. However, “Excellence/Continuous improvement” moved all the way up to the second spot, from the ninth spot, in this aspirational polling. It seems that all investment firms have a good appreciation of how much ongoing improvement matters.

But also note: The Focus 6 firms are already embracing this practice, whereas the rest of the firms seem to be saying, “We must *begin* to adopt this practice!” This is a bit like the weekend warrior who says, “Tomorrow I will start my exercise program!”

## Culture summary: cohesion and alignment

The results discussed so far highlight and discuss specific values and behaviors that seem to explain the difference between good firms and great firms. The summary statistics that we use for culture are called *cohesion* and *alignment*. We define them thus:

*Cohesion* refers to how many employees are rallying around the same value or behavior. For a given firm, we take the total number of votes cast for the top 10 values/behaviors and calculate that number of votes as a percent of the total votes cast for all choices. The higher the cohesion, the stronger the culture.

*Alignment* refers to the matches in values/behaviors for a given firm between the current and aspirational results. For example, if a firm has six values/behaviors that are in both the current and aspirational lists, we

would say the alignment is 60% (six of ten match). The higher the alignment, the stronger the culture.

Using these measures, we can compare the Focus 6 to the industry average:

Culture strength	Focus 6	Industry average
Current cohesion	45%	39%
Aspirational cohesion	42%	39%
Alignment between current and aspirational (percent that are same)	75%	56%

Although the differences are not great, the results are consistent with our thesis. The Focus 6 firms have higher cohesion and alignment than the industry at large.

## Sludge: negative behaviors that slow down the system

A key descriptive indicator that we use to describe a firm’s culture is “sludge.” We define *sludge* as the negative behaviors that reduce effectiveness and efficiency in a firm. Sludge is largely driven by fear. Sludge results from our study are as follows:

KEY: Lower sludge is better!

Sludge Factor	Focus 6 Team average	Industry average	Difference
Slow-moving/Reactive	3%	15%	12%
Short-term focus	2%	12%	10%
Bureaucracy	2%	10%	8%
Defensive behaviors	3%	10%	6%
Territorial	3%	9%	6%
Negative	1%	6%	6%
Entitlement	3%	7%	5%
Blame	2%	7%	5%
Politics	7%	11%	4%
Gossip	2%	6%	4%
Manipulation	1%	3%	2%
Disrespect	2%	4%	1%
<b>Overall Average</b>	<b>3%</b>	<b>10%</b>	<b>7%</b>

First note that the overall difference in sludge is roughly three percent versus ten percent. The Focus 6 firms run much more smoothly because of this absence of negative behavior. Notice also that sludge is higher in every category for the industry as a whole; in no case did the average firm enjoy less sludge than the Focus 6.

Also note that the two sludge factors representing the biggest difference between Focus 6 and the industry are:

1. Slow-moving/Reactive
2. Short-term focus

Indeed, many of us might have predicted this outcome. To some degree the crisis frightened all of us, no matter how even-tempered we are. The natural reaction to fear is constriction—mentally and physically—which leads to slow movement and short-term focus. Ray Dalio, CEO of Bridgewater, is careful to point out the difference

*The old saw is: “The beatings will continue until morale improves...Leaders who tried to push their teams through the crisis learned the futility of that strategy.”*

between reactive thinking and reflective thinking. In fact, he has created a formula to describe it: pain + reflection = progress. In other words, if a person can experience the pain (e.g., fear) and then reflect on it, rather than simply knee-jerk react to it, that person can learn and grow (i.e., make progress). Apparently, the Focus 6 have created cultures in which they are less likely to be reactive and short-term focused. In our view, this could be explained by the “Positive” factor we cited earlier, which allows people to be more relaxed during the crisis. The old saw is: “The beatings will continue until morale improves.” The newer version of this might be “The beatings will continue until results improve.” Leaders who tried to push their teams through the crisis learned the futility of that strategy.

Often a firm’s sludge factors are “addressed” in the choices of aspirational values. For example, if a firm identifies “Bureaucracy” as an existing value, it often will choose “Accountability” in the aspirational list as an antidote to that condition. (That is, firms that develop a culture of accountability tend not to be bureaucratic.) We see this in the industry data as well. Given that “short-term focus” is one of the top two sludge factors, we might predict that “Long-term perspective/Vision” may indeed be one of the industry’s top aspirational values. So it is, ranking eighth highest of all aspirational choices. Many investment firms are consciously attempting to override the short-term focus by altering their investment processes. For example, a large equity

quant shop just changed its time horizon from one-month intervals to six-month intervals. (The CIO was asked by a staff member, “So, if I find a strategy that delivers alpha in the first month, then gives it all back in the next five, are we NOT interested in that strategy?” The CIO’s response: “Correct. We are NOT interested.”) This CIO not only expanded the time horizon but modeled candid and transparent behavior by clearly stating his position. We had coached this CIO to be very clear about which factors were negotiable and which weren’t. This puts sharp edges on a culture.

## Success factors: the characteristics of successful asset management firms

Many studies have looked at asset management firms from the perspective of what factors separate the truly successful ones from average firms. In our survey work, we borrow from these studies and include additional factors for consideration. Employees taking the survey are asked to respond to each factor on a scale of seven (strongly agree) to one (strong disagree). The results for the Focus 6 and the industry are given in the following table. (Note: Agree = 7’s and 6’s; disagree = 2’s and 1’s.)

Success factor statement	Focus 6 Agree	Focus 6 Disagree	Industry Agree	Industry Disagree
A. As an organization, we have the ability to attract top talent.	86%	2%	61%	5%
B. We are free of silos in our organization.	40%	11%	26%	23%
C. We have strong talent management, which includes career pathing and succession planning.	49%	7%	28%	20%
D. We have an ownership mentality; our employees think like owners of the business.	63%	4%	34%	16%
E. We are good at executing plans.	78%	2%	40%	6%
F. Our senior team communicates well (clear and transparent).	65%	6%	41%	13%

For every one of the traditional success factors, the data support the hypothesis that top firms will outperform the average firms in these areas. Note that we did *not* choose the Focus 6 based on any of these traditional factors. Rather, these factors answer the more fundamental question: *What drives the success of these top firms?*

In information businesses, employees are the only real assets. Our research supports the simple but profound concept that what is good for the employee is good for the client. These success

factors allow firms to get through the difficult times and prosper, rather than live in fear and wither.

Take, for example, item D in the preceding table—“We have an ownership mentality.” Michael Kelly at Forest Investment Associates said senior management has worked consistently to drive ownership deep and wide through the company, and it has paid off—with 36 of 48 employees currently owning equity in the firm. Here are the scores for Forest relative to the industry and the other Focus 6 companies:

Success factor	Entity	Agree	Disagree
We have an ownership mentality; our employees think like owners of the business	Forest	83%	0%
	Industry	34%	16%
	Focus 6	63%	4%

Notice that in the “Disagree” column, no one surveyed resisted the statement of ownership mentality. For this reason, Kelly says, “We’re all pulling together.”

Another important success factor, mentioned earlier, is Communication. In the case of Retirement Advisors of America (RAA), another Focus 6 firm, Bart Roberson told us that:

*“the senior team meets monthly to review annual goals. Each member of the team is required to talk about the top six things they want to accomplish and to set SMART goals for each. Then they report on whether they have completed a goal or not. There is no middle ground: yes or no!”*

Based on this level of attention, the firm has very high scores for item F in the preceding table:

Success factor	Entity	Agree	Disagree
Our senior team communicates well (clear and transparent).	RAA	67%	4%
	Industry	41%	13%
	Focus 6	65%	6%

Roberson’s scores from his four senior team members reflect the level of candor and clarity about goals in the organization (7=strongly agree, 1=strongly disagree).

RAA team factors	Average score	High score	Low score	Percent of agree (i.e., scores of 6 or 7)
I am candid and open with my teammates.	6.75	7	6	100%
I know my role on the team and what is expected of me.	6.75	7	6	100%
I have clear performance goals that measure my success on this team.	6.50	7	6	100%
My team leader encourages my growth and development.	6.50	7	6	100%
I know what our team is trying to achieve. The purpose and direction are clear.	6.50	7	5	75%

## Strong culture: what mindsets and attitudes does it support?

Another important aspect of culture is identifying what mindsets and attitudes the culture reinforces. All of the

characteristics in the following table have strengths and weaknesses. (For example, initiative and risk taking can be seen as proactive and entrepreneurial, even though they can lead to recklessness and carelessness.) In general, though, the Focus 6 were higher in all of these categories, suggesting that the leaders of the firms are leveraging them constructively. Employees were asked, “Which of the following does your culture support?” The responses are:

Temperament (attitude/behaviors) “our culture supports ...”	Focus 6 agree	Focus 6 disagree	Industry agree	Industry disagree
1. ... full engagement and employee development.	60%	2%	41%	8%
2. ... initiative and risk taking.	45%	6%	36%	9%
3. ... competition and high performance.	68%	3%	48%	6%
4. ... efficiency and loyalty.	82%	1%	53%	4%
5. ... clarity, order, and good communication.	65%	4%	38%	9%
6. ... effective decision making	73%	2%	43%	8%

The four highest scores for the Focus 6 are:

- Efficiency and loyalty.
- Effective decision making.
- Competition and high performance.
- Clarity, order, and good communication.

Indeed, in our interviews with hundreds of investment professionals, these four factors were consistent themes. Efficiency and loyalty remained high at the Focus 6. Despite the uncertainty in financial markets, leaders at the Focus 6 used their skills at “clarity, order, and good

communication” to keep the team engaged and focused on what could be controlled rather than all the things that could not. Both of these factors contributed to a high score for effective decision making. We believe that asset management firms are in the decision-making business, so leaders must manage in a way that contributes to this core competency. Specifically, leaders helped their teams focus on the process (which is under their control) rather than the outcome (which is not). Evidence for this focus on what is controllable is seen in the preceding Success Factors chart, where Focus 6 firms scored 78% versus 40% for the industry on “Execution.”

*“...leaders clearly communicated with employees about the firm’s financial position, results, and outlook. Employees better understood the causes and effects of various decisions and learned about the controllable outcomes. This level of transparency helps reduce fear and creates better team camaraderie, as it positions the threats **outside** the firm”*

Additionally, these leaders clearly communicated with employees about the firm’s financial position, results, and outlook. Employees better understood the causes and effects of various decisions and learned about the controllable outcomes. This level of transparency helps reduce fear and creates better team camaraderie, as it positions the threats *outside* the firm.

## Leadership teams: key success factors

The factors discussed in the “Culture” section can be thought of as the macro picture of the firm. We now turn to the micro picture: What is happening with the senior leadership team? Our experience tells us

that good leadership and strong culture go hand in hand. We would be very surprised to see a firm that had strong culture results combined with weak leadership, or the reverse. In fact, the data support our experience. All of the Focus 6 firms had strong culture results and strong senior leadership team results.<sup>4</sup>

In our leadership team scorecard (e.g., the Focus 15, or F15), we asked the direct reports of the firm leader to respond to 15 well-researched factors that define high-performing teams. The results for both the Focus 6<sup>5</sup> and the industry are given in this section. The number of directs who filled out the survey ranged from 4 to 14. The scale used was again 7 (strongly agree) to 1 (strongly disagree).

Factor	Focus 6 skill average	Industry average	Difference
1. I know what our team is trying to achieve. The purpose and direction are clear.	5.85	6.12	-0.27
2. I know my role on the team and what is expected of me.	6.18	6.18	0.00
3. I have the resources to do my work well.	5.83	5.52	0.31
4. We have the right team members to accomplish our goals.	6.15	5.41	0.75
5. As a team, we value and appreciate one another.	6.08	5.55	0.53
6. There is a high level of trust among team members.	5.98	5.30	0.67
7. I am candid and open with my teammates.	6.29	5.87	0.42
8. I feel fairly compensated for my contributions.	5.99	5.18	0.81
9. I have clear performance goals that measure my success on this team.	5.30	5.18	0.12
10. I receive useful feedback from my leader.	5.16	5.26	-0.10
11. Our team openly debates issues.	5.79	5.21	0.57
12. I am well informed about what's going on at work.	5.78	5.25	0.54
13. My work allows me to use my talents and abilities.	6.31	6.01	0.29
14. My team leader encourages my growth and development.	5.62	5.49	0.12
15. I feel that my work is important to reaching our firm's goals.	6.54	6.33	0.21

First, we should point out that we did not look at the F15 results when picking the Focus 6; the selection was based solely on the culture factors mentioned earlier and in the appendix. Interestingly, on only 2 of 15 factors did the industry as a whole score higher than the Focus 6 (Question #1 on purpose and direction and Question 10 on feedback from the leader). The other 13 factors indicate superior teamwork on the part of Focus 6 leaders and their direct reports.

A large differential—Trust at 0.67—supports other research that the FCG has performed and written about.<sup>6</sup> We have long maintained that trust is the fuel that drives high performing teams. Other important factors, such as candor, cannot thrive when trust is lacking.

The highest-ranking differential appeared on *fair compensation for my contributions*. At the most successful firms, leaders take the time and effort to design and implement compensation systems that are seen as fair and transparent. This does *not* mean that the Focus 6 are the highest-paying firms. In fact, they acknowledge that they do not aim to pay top dollar. Creating a comp system that provides employees with a feeling that they are fairly compensated is a mixture of art and science. The Focus 6 have found formulas that work for them.<sup>7</sup>

Finally, a third factor that separated the “best from the rest” is *having the right team members*. There is no quicker way to create drama and negativity in a team than having the *wrong* players around the table. Admittedly, this is a subjective call, but it is nevertheless a very important one. (Indeed, this factor is rated most important of all factors by both the Focus 6 and industry groups. In a talent industry, selecting the right talent for your team is the top priority.) In short, then, the asset management firms agree in aggregate that having the right team

members is the single most important factor in team effectiveness; it’s just that the Focus 6 have done a significantly better job of assembling the right players. (We once asked a room full of 50 CIOs—equipped with devices that allowed anonymous polling—if they had at least one player on their senior team whom they wish would quit. In response, 50% of them answered, “Yes!”) The top firms recognize the pain and difficulty involved in making these calls and are willing to do whatever it takes to assemble the right team. Several Focus 6 leaders acknowledged the industry slogan of “Hire slow, fire fast.”

## Emotional intelligence: Focus 6 show an absence of blind spots

Another characteristic of the Focus 6 leaders was a higher level of emotional intelligence.<sup>8</sup> One aspect of our F15 team scorecard is a “blindspot analysis.” We ask the direct reports to respond to the 15 factors, but we assign the leader a slightly different task. The leader is supposed to consider each factor and then anticipate how the team will respond. For example, on the question about compensation (“I feel fairly compensated for my contributions.”), the leader is supposed to ask herself, “Hmmm. Is that true of my team? Will they give this a high mark (e.g., a 7, “strongly agree”) or a low mark (1, or “strongly disagree”)?” The leader enters a guess and then we compare that guess to the team’s actual average score. If the leader’s guess is more than a point away from the average, we note it as significant. Here are the results for the Focus 6 versus the industry average:

Blindspots (lower is better)	Leader too optimistic	Leader too pessimistic
Focus 6 leaders	7%	7%
Industry leaders	15%	11%

The Focus 6 leaders appear more attuned to the reality of their teams. (One of the Focus 6 leaders had a perfect score, with no overly optimistic or pessimistic ratings.) From our perspective at FCG, we have long argued that self-awareness—a

component of emotional intelligence—is an important competency of great leadership. It is encouraging to see that assumption supported by this data.

## Autopsy: the death of a firm

On a sobering note, one of the firms that agreed to take part in the surveys did not survive the crisis. After taking the surveys in the first half of 2010, this firm closed its doors in the second half. Although we sympathize with the employees and their families, this firm’s survey results do provide powerful evidence to support the findings from the Focus 6. The summary figures for the failed firm (Diver), the industry (Survivors), and the Focus 6 (Thrivers) are:

Summary statistic	Divers	Survivors	Thrivers
Culture cohesion: existing	28%	39%	45%
Culture cohesion: aspirational	42%	39%	42%
Alignment of current versus aspirational values	20%	56%	75%
Sludge factors	31%	10%	4%
Loyalty factor (percent raving fans)	9%	35%	63%
Success factor (percent top decile versus competitors)	0%	28%	65%
Success factor (percent bottom decile versus competitors)	42%	0%	0%
Effective decision making (percent agree/strongly agree)	32%	43%	72%

*“The existing culture is very tough to define because it would seem that everyone has their own idea of what Diver's culture is and should be.”*

In every one of these key success factors, the Diver indicator is well below those of the industry average and the Focus 6. The exception is “Culture cohesion: Aspirational,” which measures the hopes and dreams of the employees; that is, what would our organization look like in its ideal state? For this statistic, the Diver is in line with the industry and Focus 6 firms. This makes sense because, regardless of current circumstances, employees may have a similar view of a preferred future. (Whether they can attain it is a wholly different question!) Notice, though, that the alignment—number of matching values between current and aspirational state—is only 20% for Diver, much lower than the industry or Focus 6. This lower number for Diver indicates the greater distance it must travel from “current” to “preferred.” In the case of Diver, it failed altogether along that journey.

Comments from employees at Diver support our general thesis that strong culture is important to investment success. Here are actual excerpts from the comments section of their report:

*The existing culture is very tough to define because it would seem that everyone has their own idea of what Diver's culture is and should be.*

*The culture is not strong at Diver. People say that the culture is great, things such as open-minded, strong, compassionate, hard-working, team environment. That's not how it really is. Information is being held and there is no team.*

*I feel as if I'm on a sinking ship and I can't do anything about it because our culture is not equal and open.*

The warning lights were flashing even more frantically in the Senior Team Scorecard:

Team scorecard factor	Diver	Industry	Thrivers
1. I know what our team is trying to achieve. The purpose and direction are clear.	6.25	6.12	5.85
2. I know my role on the team and what is expected of me.	5.25	6.18	6.18
3. I have the resources to do my work well.	5.00	5.52	5.83
4. We have the right team members to accomplish our goals.	3.00	5.41	6.15
5. As a team, we value and appreciate one another.	4.25	5.55	6.08
6. There is a high level of trust among team members.	4.00	5.30	5.98
7. I am candid and open with my teammates.	5.25	5.87	6.29
8. I feel fairly compensated for my contributions.	3.75	5.18	5.99
9. I have clear performance goals that measure my success on this team.	4.00	5.18	5.30
10. I receive useful feedback from my leader.	5.25	5.26	5.16
11. Our team openly debates business issues.	5.25	5.21	5.79
12. I am well informed about what's going on at work.	5.00	5.25	5.78
13. My work allows me to use my talents and abilities.	5.50	6.01	6.31
14. My team leader encourages my growth and development.	4.75	5.49	5.62
15. I feel that my work is important to reaching our firm's goals.	6.25	6.33	6.54

To put the Diver numbers shown in this table in perspective, here is where they would rank relative to the industry (industry averages are slightly different because we added several companies since the time of the survey):

## *How the Diver Team's factors deviate from the industry average*

Team factors	Industry average	Diver average	Diver percent rank
I know what our team is trying to achieve. The purpose and direction are clear.	6.08	6.25	69%
I receive useful feedback from my leader.	5.29	5.25	42%
I feel that my work is important to reaching our firm's goals.	6.36	6.25	35%
I am well informed about what's going on at work.	5.27	5.00	31%
I have the resources to do my work well.	5.56	5.00	27%
My work allows me to use my talents and abilities.	6.06	5.50	19%
I have clear performance goals that measure my success on this team.	5.13	4.00	13%
I feel fairly compensated for my contributions.	5.27	3.75	10%
I am candid and open with my teammates.	5.91	5.25	8%
My team leader encourages my growth and development.	5.56	4.75	8%
There is a high level of trust among team members.	5.37	4.00	8%
I know my role on the team and what is expected of me.	6.20	5.25	6%
As a team, we value and appreciate one another.	5.59	4.25	4%
Our team openly debates issues.	5.26	4.25	4%
We have the right team members to accomplish our goals.	5.46	3.00	2%

The red lettering indicates all the factors that fall below the industry average for Diver: all but two of them. Ironically, throughout the period immediately preceding their demise, the leadership team at Diver ranked highly in their belief that they knew their purpose and mission, and that their leader was giving them useful feedback. If we had to pinpoint a root cause for Diver's failure, we would choose the leadership team's failure to assemble the right team members. The senior team scored this a "3," which is the lowest score in our database. Pointedly, the leader correctly anticipated this low score in his portion of the "Blindspot" analysis (i.e., he correctly guessed that the team felt they had the wrong players). This leads to the obvious question: If the entire senior team knew that the wrong people were on the bus, why wasn't any action taken!? In our view, the lessons from the demise of Diver are important enough to merit a separate follow-up paper. So, we'll leave that discussion for another time.

## Lessons learned: what are the takeaways?

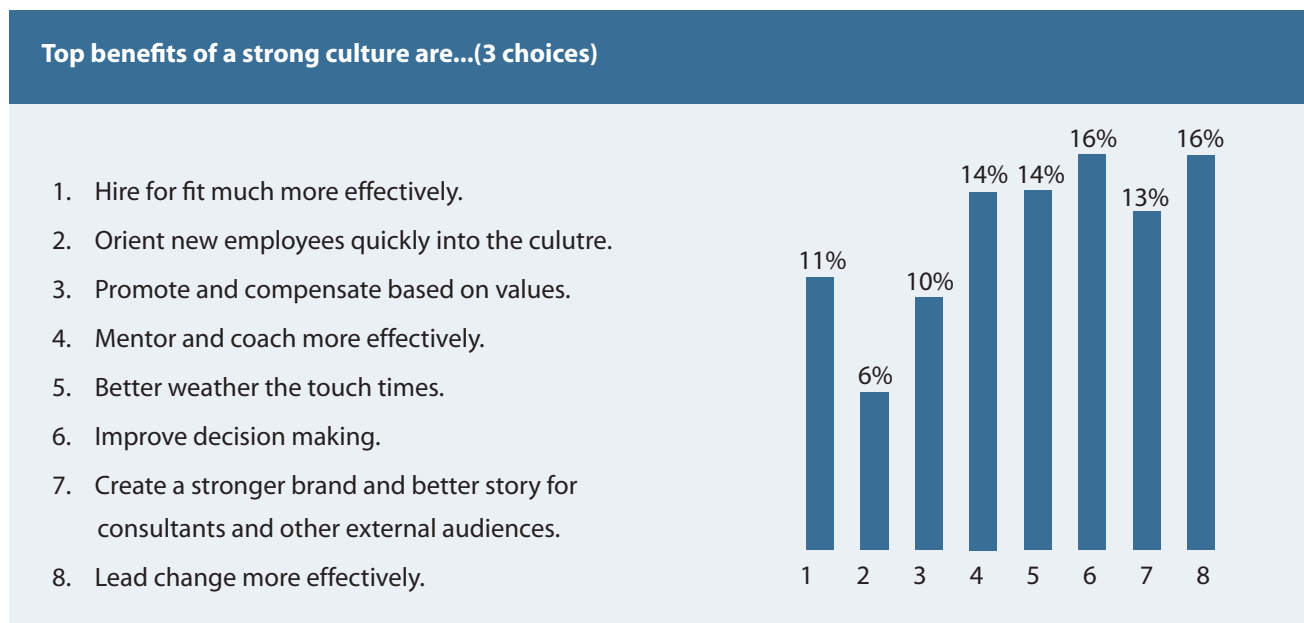
By studying the similarities of the Focus 6 firms, we can hope to learn best practices for

managing asset management firms. Indeed, these lessons emerged from the data.

the other Focus 6 firms have developed strong cultures with the awareness that culture allows firms to better weather tough times. Here is the data from more than 500 investment professionals who were asked: What are the benefits of strong culture:

### 1. Pack your parachute before it's time to jump!

One clear lesson from interviews with the Focus 6 firms is that they have worked steadily to develop strong cultures over the years so that they would be prepared for adversity when it struck. AJO, which is celebrating its 25-year anniversary, was featured in our book, *Investment Leadership* (2003), where we noted that for AJO the sludge factor was low and the culture was strong: high levels of both cohesion and alignment. Similarly, the other Focus 6 firms have developed strong cultures with the awareness that culture allows firms to better weather tough times. Here is the data from more than 500 investment professionals who were asked: What are the benefits of strong culture:



Notice that #5, “better weather the tough times” was one of the top choices for defending strong culture. Our Focus 6 group suggests that strong culture is good preventative medicine for the inevitable downturns that asset managers will face. But culture takes a long time to create, and for our attention deficit-ridden society, it is hard for leaders to stick with it.

*Unconventional Wisdom: Tending to the “soft” stuff is actually the harder job for leaders. Michael Mauboussin writes compellingly about the importance of process over outcomes, but many asset management professionals are still staring at the scoreboard and not at the field of play (i.e., the process).<sup>9</sup> Develop a culture that promotes and rewards the right process so that in difficult stretches the right behaviors will have become second nature—and players will keep their eyes on the ball.*

## 2. Trust and respect are the fuel of high-performing teams.

Our data clearly show that the Focus 6 leadership teams had higher levels of trust than the industry, by a significant amount. Leaders in the asset management business often make the mistake of assuming that if they have developed strong trust with the senior team—that is, leader to all his/her direct reports—that the trust among the team members is also strong. Leaders must be aware of the senior team dynamics, and they must know the right trust levers to pull. (See Robert Hurley, “The Decision to Trust,” *Harvard Business Review*, September 2006.)

*Unconventional Wisdom: Skepticism may be a valuable attitude for investment professionals in their role as investors, but it is deadly in their role as trust builders. Rather, they must lead with trust and positive expectations of their team, not with suspicion and doubt.*

3. **Having the right team members in the right roles is critical.** Straight from Jim Collins’s *Good to Great*, the Thrivers (i.e., the Focus 6) all felt that they had the right members of the senior team. One of the quickest ways to destroy high morale on a competitive team is to “allow” weak players to remain on it. For this reason, some of the stronger cultures in the asset management world have adopted fairly stringent standards for employees who don’t fit. Ray Dalio, Bridgewater CEO, says of these employees, “They have devastating impact on the organization. When it’s clear that people aren’t working out in a job, get them out of it ASAP.” Michelle Seitz, head of equities at William Blair, has made similar comments about protecting the strong and successful culture she has built. The Focus 6 firms rated this factor—the right teammates—as significantly higher in both skill and importance compared to the industry. In short, these six firms made a clear statement that having the right team members is hugely important to success and weathering tough times. They tend to follow the tough guiding principle of “*Hire slow and fire fast.*”

*Unconventional Wisdom: Many firms design their strategies and organization charts, then plug people into the boxes. Bud Grant, Hall of Fame Minnesota Vikings coach, had it right; he said, “When I draw up my play book, I always go from the players to the plays.” Jane Marcus at KornFerry has adopted this strategy in her recruiting of senior talent: “I’m not looking to fill boxes on a chart. I’m looking at the whole system.”*

4. **The best firms “get the money thing” right, to paraphrase Buffett.** Compensation is one of the thorniest issues in the industry. Getting the

right formula so that people feel fairly compensated is challenging. To a statistically significant level, employees at the Focus 6 firms felt more fairly compensated than the industry on average. The same was true for the Focus 6 in the case of ownership mentality. To a much greater extent, the employees of the Focus 6 felt that they were owners of the firm and behaved that way. In our experience, the best practice for designing compensation systems involves senior leaders collaborating directly with the staff to discuss and agree on what constitutes a fair reward system. As simple as this sounds, few firms do it this way. Rather, they assign a subcommittee (often HR staff) to meet covertly and crack the compensation code. Invariably, this subcommittee returns with a plan that does *not* resonate with the professionals in question. The result is dissatisfaction and often loss of key talent.

*Unconventional Wisdom: Reward systems must be seen as fair. Rather than using “experts” to design a comp system, use the “wisdom of crowds.” Let the relevant team design its own reward system, within the, within the parameters given.*

**5. Candor is essential to high-quality decision making.** Both at the senior team level and in the broader culture of the firm, the Focus 6 showed much higher levels of candor, openness, and honesty. We call the gap between what is thought and what is said the “Candor Gap.” Our survey measured this gap for asset management firms and found that on a 7-point scale (for “perfect candor”), the average gap for the industry is 1.64. Senior investment teams in general miss “total candor” by this amount, whereas the Focus 6 teams close the gap considerably, to 1.10. Interestingly, for both the industry and the Focus 6, individuals feel that they personally are more candid than the team is (Lake Wobegone effect ...).

	Personal candor score	Team candor score
Industry	6	5
Focus 6	6	6

The investment business is arguably the quintessential knowledge industry, so firms should push hard to get all the relevant information on the table. Dalio at Bridgewater makes a good point when he says, “Your goal is to have people discuss or debate important issues in an open-minded way until the best answers are determined. This process should maximize learning and mutual understanding. Thrash it out to get the best answers.”<sup>10</sup>

*Unconventional Wisdom: People assume that candor and congeniality cannot live in the same room. You can either be brutally honest or politely discreet (read: withholding). Not true. The best firms have learned to “tell the truth with love,” which is sound advice straight from the Bible!*

**6. Appreciation is alive and well at the Focus 6 firms.** The investment industry is filled with type-A personalities: driven and future oriented. The phrase, “What have you done for me lately?,” perfectly describes the attitudes in this industry. And most investors can tell you what they’ve done lately, by looking at minute-to-minute portfolio returns. You can measure the amount of time during which investment professionals relax and appreciate their accomplishments in nanoseconds. Interesting, then, that the Focus 6 levels of appreciation were higher than the industry averages. The opposite of an appreciative attitude is one of entitlement. In

the former, we are largely free of expectations and can enjoy what comes our way. In the entitled mindset, we have high expectations for what the world/boss/spouse owes us. And we are miffed if we don't get it!

Our data show that the Focus 6 firms had virtually no entitlement mentality anywhere in their organizations (less than 1% in the culture survey). The average investment firm had 7% of votes cast for entitlement. When asked about this phenomenon of "what have you done for me lately?"; many investment professionals confess a high level of fear associated with relaxing and appreciating their success. Why? Because they might get used to it and lose their edge! They might lose their desire for continuous improvement! So, they keep pushing and pushing. In our experience, one can learn to be appreciative and be high performing as well. In fact, more so. Note that one of the values Focus 6 firms embrace is "Easy going/Good natured." This flies in the face of the argument that you must grimly push ahead to be successful. Even Dalio at Bridgewater, who sometimes gets cast as a taskmaster, says, "Clarify and draw attention to people's strengths and what's being done well."<sup>11</sup> One of our Focus 6 leaders told us that he "deliberately looks for something to appreciate in each of his team members. In one, I might find a great sense of humor. In another, I admire the way he places his family first. In still another, I respect that he pushes back whenever he disagrees. I can choose to focus on the irritating qualities or on this positive stuff. My call."

*Unconventional Wisdom: Driving for excellence is not incompatible with appreciation of oneself and others.*

**7. Focus 6 firms are driven to continually improve and reach for excellence.**

*Reader: Okay, you just said that driving and pushing are NOT what distinguishes the top firms. So, I'm confused, what are you saying?*

Indeed, this is a paradox. Although the Focus 6 are better at appreciating themselves, they also embrace more fully the value of "continuous improvement/excellence." During the interviews, we probed for the nuances of this paradox and found that the difference lies in the attitude toward continuous improvement. In short, the Focus 6 enjoy trying to get it better. They did not characterize the endless push for improvement as a grind, but rather as a fun challenge. Perhaps they enjoy it because they do experience more appreciation as they strive for greater excellence. In any case, the data reveal that the Focus 6 are indeed cut from that type-A cloth: the ongoing quest for improvement.

*Unconventional Wisdom: Rather than trying to shore up weaknesses, the best firms identify and leverage talent. Continually improving in your "sweet spot" feels fun and satisfying. It's a renewable source of energy.*

**8. Focus 6 firms demonstrate a higher level of self-awareness.**

Dan Goleman, author of *Emotional Intelligence*, says that this sort of awareness—about self and others—is three times more important to success than technical knowledge or experience. The leaders of the Focus 6 showed a greater emotional intelligence in the portion of our survey called "Blindspot Analysis." They were better able to predict how their teams would respond to the 15 factors on in the Team Scorecard. In short, they were

better able to “read” their team members. A higher score in the following table means lower emotional intelligence (more missed guesses on the part of the leader about his/her team):

	Leader too optimistic	Leader too pessimistic
Focus 6 leaders	7%	7%
Industry leaders	15%	11%

*Unconventional Wisdom: Many investment professionals still believe that the best leaders in their industry must have technical expertise in investing. Our research agrees with Goleman that the best investment leaders have high emotional intelligence first, and technical expertise second.*

**9. Focus 6 firms recognize the power of aligning people with natural abilities.** Peter Drucker, arguably the most impressive management guru of all time, said this about managers’ levels of self-awareness: “Even today, remarkably few Americans are prepared to select jobs for themselves. When you ask, ‘Do you know what you are good at? Do you know your limitations?’, they look at you with a blank stare. Or they often respond in terms of subject knowledge, which is the wrong answer.”

Some of the most impressive leaders we know in the industry have built their cultures around this principle of “genius”: namely, find out a person’s sweet spot and then align her or him with it. For the team factor, “My work allows me to use my talents and abilities,” the Focus 6 significantly outscored the industry: 6.43 versus 6.03. Also, there were consistently fewer incidents of misalignments with the Focus 6. The lowest score (on a 7-point scale, where 7 = strongly agree) for any of the Focus 6 team members on this factor was 5, which is “slightly agree.” No one was neutral or in disagreement with the statement.

*Unconventional Wisdom: Many investment leaders still believe that it is a luxury to spend more than half of their days doing what they love, and that it is unrealistic to expect anything different. In our interviews with the Focus 6 leaders, they declared that in a given week of work they average more than 80% of their time in their “sweet spot.” They do not feel guilty about it; they know it is the best strategy for themselves and their firm.*

**10. The cultures of the Focus 6 support effective decision making.** In our view, this may well be the “bottom line” of all this analysis. Namely, these top firms have done the right things to support effective decision making. Our culture survey asks, “Does your culture support effective decision making?” The results are clear:

	Focus 6 agree	Industry	Focus 6 disagree	Industry
Culture supports effective decision making.	72%	43%	1%	8%

In the earlier chart on “Benefits of a Strong Culture,” the top rated benefit was “improved decision making.” Investment professionals in all corners of the world see the link between culture and decision making, and yet, in the average firm from our research, only 43% of the employees think that the culture does support effective decision making. In the debriefing sessions with investment leaders, this was a point that we hit hard: figure out what is inhibiting effective decision making and fix it. When asked by these same leaders, “How do we do that?” our response was clearly supported by the data: Reduce the amount of sludge in your system. These two factors—sludge and effective decisions—were clearly correlated. To the degree that your organization promotes and tolerates drama, it will negatively affect good decision making. Eliminating sludge from the system is similar to eliminating fat from the body. You have to commit to the process: “I want to get healthy.” Then you must design a program of healthy eating and exercise and stick to it. When firms are willing to do this, we’ve seen sludge factors decrease by more than 50% in six months’ time. Leaders must be willing to make tough choices, however, if they want to see these results. Often, the biggest way to reduce sludge is to identify the misfits (people who don’t fit with your culture; we call them “Red Xs,” Netflix calls them “Brilliant Jerks”) and manage them out. This is the clearest way to send a signal: we are serious about building and protecting a strong culture.

*Unconventional wisdom: Investment leaders mistakenly think that they can build a strong culture without effort. Like physical fitness, building a strong culture requires commitment and vigilance.*

## Conclusion

The Global Financial Crisis provided the ultimate stress test for asset management firms. Some thrived, some survived, some sank. The data from nearly 60 firms suggests that strong leadership and strong culture were instrumental in determining their success or failure. In this paper, we’ve reviewed the data carefully to extract the lessons. We conclude that investment leaders ignore at their peril the basic truth that investment is a talent industry—and talent means people. Investment leaders face the elegant paradox of managing talented professionals who don’t really want anyone to manage them in the first place! Despite this challenge, six firms (the Focus 6) found exemplary ways of not only surviving but also thriving during the crisis. We salute their skill and success.

## Appendix A: Methodology for writing this white paper

The idea for this paper came from the realization that our large database of asset management culture statistics had become obsolete during the financial crisis. So, in the autumn of 2009, we decided that 2010 would be the year in which we rebuilt the database with fresh, post-crash data. We contacted hundreds of firms in the industry, especially firms like AMG, AMF, Old Mutual, and Progress, which run multi-boutique strategies, and asked if they would like to take advantage of a one-time-only offer to receive a culture and senior leadership team report from FCG. Happily, nearly 60 firms jumped in, which our statistical experts told us was “plenty” to assure statistical significance. (Interestingly, in the area of election forecasting, we learned that a sample size of about a thousand randomly selected individuals is significant and permits accurate prediction of results, regardless of whether the population is 10 million or 1 billion. So it is with asset management firms: 60 gives us a pretty good look at the makeup of the industry.)

Our statistical experts, all working separately, are:

- Doug Hubbard, author of *How to Measure Anything* and consultant to many firms on statistical applications. Chicago.
- Brindha Gunasingham, President of FitzBiz Investment Analysis & Strategy; GAICD, CFA, MA Cantab, MSc (Econ) Lon, BA Hons Cantab. Sydney.
- Mike Farrar, statistical consultant. Chicago.

These experts helped us in the design and interpretation of the surveys. Much of the actual content of the surveys—questions and factors—was pieced together from academic research and industry studies. We

had no illusions about discovering original truths; rather, we borrowed from the best. For example, each of the 15 teamwork factors in our F15 Scorecard has solid research behind it to show that it drives team performance and outcomes. Reassuringly, in our surveys, the “importance” rating (in which respondents rate the importance of each of the 15 factors) proved that all 15 of the factors were indeed seen as important.

The experts also helped us in designing interviews that would best test the results of the surveys. We learned a great deal from these experts and are grateful for their help. Another great source of help in the statistics area was Michael Starbird, professor at the University of Texas in Austin. His DVD series, called “Meaning from Data: A Guide to Understanding Statistics,” is excellent, and we highly recommend it (available from [www.teach12.com](http://www.teach12.com)).

Once we had collected the names of all the firms that wished to participate, we turned Liz Severyns and Chuck Heisinger from our team loose to administer two surveys to each firm:

1. Culture survey, taken by all employees at the firm. Anonymous, 10-minute online survey.
2. Senior team leadership survey, taken by the CEO’s direct reports (usually 4–12 people). Also a 10-minute, anonymous, online survey. The CEO was instructed to take the same survey, but the instructions for this person were slightly different. Rather than responding to the questions as a team member, the CEO was instructed to predict how the team would respond.

In the spring and summer of 2010, we collected nearly 60 of these tandem results and from them built an entirely new database for analysis.

As the results came in, we scheduled debriefs with each CEO (and any senior staff members of their choosing) to discuss each survey and the implications. From these interviews, we were able to drill deeper into the results. Many of the insights in this paper were

the result of these debriefs. We are grateful to all the leaders for their willingness to participate in the surveys and to share their thoughts in the debriefs.

By May of 2010, we had collected enough data to give a preliminary report to our advisory board

at Focus Consulting. Each year we host a Focus Advisory Board (FAB) retreat in Chicago, and during the 2010 retreat we reviewed our findings with the 15 advisory board members who were in attendance. The material presented was made available to all our FAB members, listed here:

## The Focus Advisory Board

**Peter Banziger**

Head of Asset Management & Institutional Clients, Swisscanto Asset Management, Ltd

**Roger Clarke**

Chairman, Analytic Investors, Ensign Peak Advisors

**Stephen Dunn**

Senior Vice President, Essex Investment Management Company, LLC

**Frank Holmes**

CEO & CIO, U.S. Global Investors Inc

**Jane Marcus**

Senior Client Partner, Korn/Ferry International

**Steve Potter**

President, Northern Trust Global Investments

**Kim Redding**

CEO/CIO, Brookfield Investment Management

**Paul Schaeffer**

President, ReFlow

**Brian Singer**

President, Singer Partners, LLC

**Maury Tognarelli**

CEO, Heitman, LLC

**Bob Wagner**

CEO, Victory Capital Management

**Kelly Williams**

President and COO, Atlanta Capital Management Company, LLC

**Andrew Canter**

Chairman of Investment Committee & Head of Fixed Interest, Futuregrowth Asset Management

**Nate Dalton**

COO, AMG

**Britt Harris**

CIO, Teacher Retirement System of Texas

**Jim Laird**

CFO, Diamond Hill

**Jeff McCroy**

President & COO, Transamerica Investment Management

**Scott Powers**

CEO, State Street Global Advisors

**Ed Rosengarten**

Chief Executive, Equities M&G Investments

**Michelle Seitz**

Head of Investment Management, William Blair & Company

**Guy Strapp**

Regional Head of Investment Management, Asia and CEO, Prudential Asset Management

**Jim Tyree**

CEO, Mesirow Financial

**James Walsh**

Former CIO, Cornell University Investment Office

**Glenn Carlson**

CEO, Brandes Investment Partners

**Jeff Diermeier**

Former CEO, CFA Institute

**Melody Hobson**

President, Ariel Capital Management, Inc

**Mark Lazberger**

CEO, Colonial First State Global Asset Management

**Michael Mezei**

President, Mawer Investment Management

**Bill Quinn**

CEO, American Beacon Advisors

**Dr. Andreas Sauer**

CEO and CIO, Quoniam Asset Management

**Kim Shannon**

President & CIO, Sionna Investment Managers, Inc

**Peter Thompson**

CEO, Perkins Investment Management

**Robert Vanderhooff**

CEO & CIO, Greystone Managed Investments

**Michael White**

President, Addenda Capital

The FAB members provided useful feedback and provided real-time, “from the trenches” advice about how to make this information most useful to investment leaders. Many of the lessons learned are from FAB members.

Toward the end of the summer in 2010, we had amassed enough data and feedback to formalize our findings in this white paper. We used the collective wisdom of the Focus Consulting team, listed below, to describe the data and the lessons. The draft of the paper was circulated and reviewed by them in no fewer than three versions:

- Lou Chrostowski
- John Cooper
- Ashli Gershowitz
- Chuck Heisinger
- Jim Keene
- Hank Kinzie
- Rene Pfaff
- Keith Robinson
- Liz Severyns
- Jack Skeen

In brief, then, this is the process by which we came to collect the data, reflect on it, and write down our conclusions. We welcome additional comments and feedback. Most importantly, we thank each of you who helped us discover what we believe are valuable insights for leaders in this industry.

With best wishes,

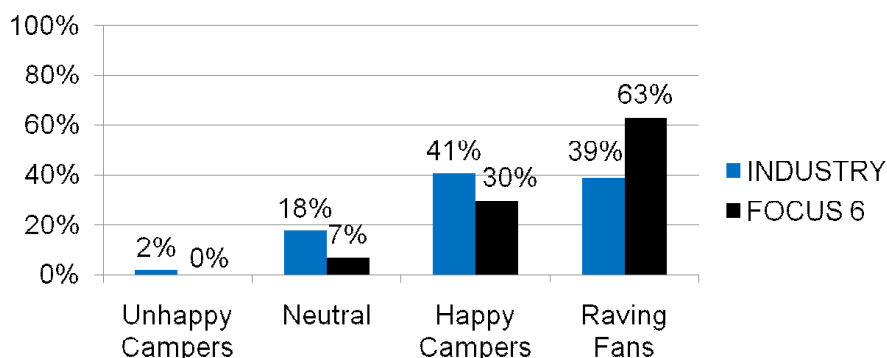
Jim Ware, CFA, and the Focus Consulting Group

## Appendix B: Focus 6 versus The Investment industry: criteria for choosing the Focus 6

- Firm has less than 5% sludge among its current values
- More than 50% of employees would accept position at another firm only if substantially more money was offered.
- More than 50% of employees at firm believe that they rank in the top decile of perceived success versus competition.
- More than 50% of employees agree that the firm's culture supports effective decision making.
- Firm has 15 or more employees.

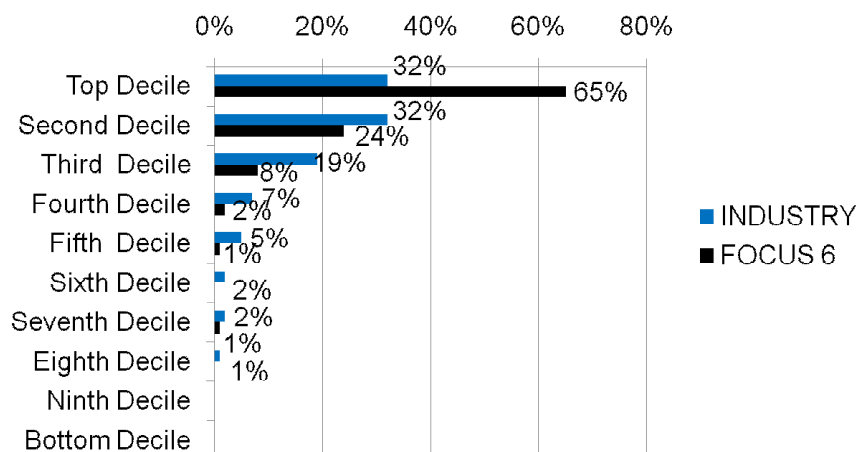
### Loyalty Factor

Think about what level of financial incentive it would take for you to leave your current firm. Imagine if a firm like yours existed just down the street. Which of the following statements most closely describes your current attitude:



**UNHAPPY CAMPERS:** I might move for less money; I do not like the environment here. I would like an improvement in my working environment.  
**NEUTRAL:** I might move for the same or slightly more money, if the other firm had a good reputation. It's not bad here, but I'm sure there are

### Where would you rate your firm's success relative to competitors?



## Appendix C: Focus 6 firms, company information (to be completed before publication)

Name of firm	Leader	Location	Number of employees	Aum 6/30/10	Owned by	Client base
Forest Investment Associates	Michael Kelly	Atlanta, GA	48	\$3.2 B	Employees	Inititutional & endowment pooled funds
AJO	Ted Aronson	Phila., PA	38	\$18.2 B	Employee owned	Institutional
Snow Capital Mgmt.	Carl Vuono	Sewickley, PA	35	\$2.9 B	Employee owned	Wirehouses regional B/Ds institutional
Retirement Advisors of America	Ron Simmons	Dallas, TX	27	\$1.6B	Limited partnership	Airline pilots
Disciplined Growth Investors	Fred Martin	Minn., MS	15	\$1.7B	Employee owned	Institutional

*The sixth firm chose anonymity.*

## Appendix D: Additional comparisons between Focus 6 and Industry

### Aspirational Cultures: A Comparison of Industry and Focus 6

INDUSTRY	%	FOCUS 6	%
Collaboration/Teamwork	42%	Client Satisfaction	48%
Excellence/Continuous improvement	42%	Excellence/Continuous improvement	43%
Client Satisfaction	39%	Professional	41%
Long-term perspective/Vision	35%	Ethical/Integrity	38%
Professional	32%	Balance (home/work)	36%
Ethical/Integrity	32%	Collaboration/Teamwork	35%
Respect	30%	Long-term perspective/Vision	34%
Balance (home/work)	30%	Respect	34%
Accountability/Responsibility	30%	Profit/Financial success	34%
Leadership development/Mentoring	26%	Positive	29%

Red/Italicized= sludge value  
lined= Match between top existing and aspirational values

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# Endnotes

- 1 Note: One of the Focus 6 firms did not complete the entire Team Scorecard, so when you see "Focus 6" in reference to the Team Scorecard (F15), it actually refers to five of the six firms.
- 2 Jamie Dimon at World Economic Forum in Davos, January 2010.
- 3 See Appendix A for complete description of methodology.
- 4 Note: One of the Focus 6 firms did not complete the entire Team Scorecard, so when you see "Focus 6" in reference to the Team Scorecard (F15), it actually refers to five of the six firms.
- 5 In this case one firm did not complete the survey.
- 6 See "The Trust Project" on FCG website: [www.focusgroup.com](http://www.focusgroup.com)
- 7 See Brian Singer's chapter on "Meritocracy" in Investment Leadership and Portfolio Management (Wiley, 2010).
- 8 See Dan Goleman, Emotional Intelligence (\_\_\_\_\_, \_\_\_\_\_.).{AUTHOR: Need at least publisher's name & year of publication.}
- 9 Michael Mauboussin, Untangling Luck and Skill, Legg Mason website. {AUTHOR: S/give URL for the website.}
- 10 Ray Dalio, Principles from Bridgewater website. {AUTHOR: S/give URL for the website.}
- 11 Ibid.

# The Focus Consulting Group, Inc.

Serving over 200 clients in 18 countries, guided by an advisory board of 25 CEO's from leading investment firms.

## Our mission

To advise investment leaders on leveraging their talent worldwide.

## Our approach

Jim Ware discusses the engagement with your firm's leadership, designs a custom approach, and brings in content experts when appropriate. Examples of such collaboration includes work with:

- Adam Barnett, *McLagan*
- Dave Bauer, *Casey Quirk*
- Jim Dethmer, *Jim Dethmer Consulting*
- Jeff Diermeier, *CFA Institute*
- Ron Gold, *Gold Consulting*
- Jane Marcus, *Korn/Ferry International*
- Michael Mauboussin, *Legg Mason*
- Brian Singer, *Singer Partners*

## Services and metrics offered

### Organizational

- Foundational offsites (vision, values, strategy)
- Succession planning
- Compensation & incentive structures
- Firm integration: eliminating silos

### Leadership

- Assessments (360, psychometrics)
- Development & coaching
- Onboarding new leaders
- Personality typing & application

### Culture

- Analysis & management
- M&A analysis, integration, implementation

### Team

- Enhanced decision making
- Assessments & dynamics
- Conflict resolution
- Personality typing & application

### Investment Philosophy & Process

- Assessment
- Applied behavioral finance
- Effective post-mortems

### Distribution

- Marketing/Sales strategy
- Branding
- Client service

## Jim Ware, CFA



Jim Ware is the founder of Focus Consulting Group, a firm that helps financial leaders understand and leverage their firm's human capital for competitive advantage. Author of three books on leadership and culture in the investment industry, all in the Wiley Financial Series, his most recent is entitled, *High Performing Investment Teams*, (February, 2006).

Mr. Ware is a Chartered Financial Analyst with 20 years experience as a research analyst, portfolio manager, and director of buy-side investment operations. He has taught investments at the Kellogg Graduate School of Management and written articles for various trade publications including the Financial Analysts Journal. He is on the advisory staff for Institutional Investor magazine and the CFA Board of Regents. His books have been reviewed in The Wall Street Journal, Pensions & Investments, Forbes, and Canada's Globe and Mail. He has presented at over 100 CFA events in 18 countries and writes a quarterly column for their website: "Firm Success: Leading the Investment Firm". Mr. Ware has appeared on Fox News, Canada's "Report on Business" and other news shows.

His educational background includes a Masters in Business from the University of Chicago and a degree in philosophy from Williams College, where he graduated Phi Beta Kappa.

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